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SUBJECT: COUNTERVAILING DUTY INVESTIGATION -- LEATHER
HANDBAGS FROM BRAZIL

REF: A) BRASILIA 890 B) STATE 6542 C) STATE 22859

1. IN RESPONSE TO EMBASSY QUESTIONS IN REF A FOURTEEN
PER CENT IS HIGHEST COUNTERVAILING DUTY RATE APPLIED
SINCE 1947. INFORMATION ON RATES PRIOR TO 1947 IS NOT
EASILY AVAILABLE. IT SHOULD BE REMEMBERED HOWEVER THAT
UNTIL MODIFICATION OF COUNTERVAILING DUTY LAW BY TRADE
ACT OF 1974 COUNTERVAILING DUTIES HAD BEEN IMPOSED
INFREQUENTLY. ACCORDINGLY BASIS FOR COMPARISON TO THE
FOURTEEN PER CENT FIGURE IS LIMITED.

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2. CALCULATIONS IN BRAZILIAN LEATHER HANDBAG INVESTIGATION

WERE MADE IN EXACTLY SAME MANNER AS IN FOOTWEAR CASE. THE PURPOSE OF THE CALCULATIONS IS TO DETERMINE THE UTILIZATION BY FIRMS OF VARIOUS EXPORT INCENTIVES. AS FIGURES, SUCH AS AMOUNTS OF EXPORT RECEIPTS IN RELATION TO TOTAL RECEIPTS, DIFFER FROM FIRMS IN INDUSTRIES THE AMOUNT OF UTILIZATION OF CREDITS WILL ALSO DIFFER. THE LEATHER HANDBAG INDUSTRY HAD A CONSISTENTLY HIGHER UTILIZATION RATE THAN DID THE FOOTWEAR INDUSTRY. A CHANGE IN APPROACH WAS MADE IN THAT FIRMS THAT RECEIVED LESS THAN FOURTEEN PER CENT IN INCENTIVES MAY NOW PROVE THE LOWER FATE OF UTILIZATION AND HAVE ENTRIES LIQUIDATED AT THE PROVEN LOWER RATE. THE APPROACH ADOPTED ALLOWS AN ACCURATE REFLECTION OF INCENTIVES RECEIVED ON A CURRENT BASIS, I.E. FOR 1976 IMPORTS INCENTIVES RECEIVED IN 1976 MUST BE SHOWN. (FYI. THIS APPROACH IS CONSISTENT WITH GENERAL TREASURY POLICY, THE BRAZILIAN FOOTWEAR SITUATION IS THE EXCEPTION. FURTHERMORE, GOB IS RESISTING UPDATING OF DATA IN FOOTWEAR CASE AS DEMONSTRATED BY SIMONSEN LETTER TO SIMON OF JANUARY 28, SENT SEPTEMBER CALLING INTO QUESTION ATTEMPTS TO BE TOO PRECISE IN SETTING OF CURRENT CVD RATES BASED ON HISTORICAL DATA. PRIOR TO FOOTWEAR CASE TREASURY PRACTICE WAS TO SUSPEND LIQUIDATION INDEFINITELY AND THEN AWAIT SUBMISSION OF DATA ON AN ANNUAL BASIS. WE HAVE THUS FAR AVOIDED SUCH A PROCEDURE IN DEFERENCE TO BRAZILIAN INTERESTS AND IN

HANDBAG CASE GOB REQUEST FOR A SINGLE RATE. IN ADDITION, EMBASSY MAY POINT OUT TO GOB THAT SUSPENSION OF LIQUIDATION ON LEATHER HANDBAGS IS OPTIONAL AND MUST BE REQUESTED BY EXPORTERS.) AS MENTIONED IN REF B THE MAJORITY OF BRAZILIAN EXPORTS OF LEATHER HANDBAGS RECEIVED INCENTIVES OF APPROXIMATELY FOURTEEN PER CENT OR MORE. IN LEATHER HANDBAGS THERE WAS NO OBVIOUS QUOTE BREAKING POINT END QUOTE FOR TWO RATES AS IN FOOTWEAR INVESTIGATION AND SPREAD BETWEEN HIGHEST AND LOWEST INCENTIVES RECEIVED WAS CONSIDERABLY LESS THAN ON FOOTWEAR CASE. TREASURY ALSO WISHES TO AVOID PROBLEMS FLOWING FROM SETTING OF SEPARATE RATES WHICH AMONG OTHER EFFECTS TENDS TO DISTORT STRUCTURE OF EXPORT INDUSTRIES TO TAKE MAXIMUM ADVANTAGE OF LOWER RATES.

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3. THE TWENTY FOUR PER CENT FIGURE WITH REGARD TO CASTOR OIL PRODUCTS MENTIONED IN REF C RELATES TO THE TOTAL IPI AND ICM CREDITS RECEIVED BY BRAZILIAN EXPORTERS. FROM FOOTWEAR AND HANDBAG INVESTIGATION IT WOULD APPEAR UNLIKELY THAT EXPORT FIRMS OF CASTOR OIL PRODUCTS ARE ABLE TO UTILIZE THE FULL TWENTY FOUR PER CENT OF CREDITS RECEIVED. HOWEVER, IF THE DATA NECESSARY

FOR CALCULATION OF THE ACTUAL UTILIZATION OF CREDITS
IS NOT RECEIVED TREASURY MUST ASSUME THAT ALL CREDITS ARE
BEING UTILIZED. IF IT HAS NOT DONE SO ALREADY EMBASSY
IS AGAIN REQUESTED TO DETERMINE STATUS OF GOB CASTOR
OIL SUBMISSION. INGERSOLL

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